

SURREBUTTAL TESTIMONY

OF

MARK A. HANSON

TELECOMMUNICATIONS DIVISION

ILLINOIS COMMERCE COMMISSION

ILLINOIS BELL TELEPHONE

FILING TO INCREASE UNBUNDLED LOOP AND NONRECURRING RATES

DOCKET NO. 02-0864

MARCH 6, 2004

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Q. State your name and business address.

A. My name is Mark A. Hanson. My business address is 527 East Capitol,
Springfield, Illinois 62701.

**Q. Are you the same Mark A. Hanson who sponsored direct and rebuttal
testimony in this proceeding?**

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. My testimony will respond to certain issues raised in the rebuttal testimony of
AT&T witness Robert Flappan¹.

Q. What are you responding to in Mr. Flappan's testimony?

A. I take issue with Mr. Flappan's use of BLS data as an appropriate basis for
determining labor rates. I believe using contract labor rates for SBC personnel
is a more appropriate basis for establishing forward-looking labor rates to
establish non-recurring charges. Contrary to Mr. Flappan's assertion, I do not
believe this constitutes rate making using embedded costs. Rather, I believe it
fits in best with the FCC's concept of forward-looking incremental costs.

Q. How have you reached that conclusion?

A. I have looked at the FCC's definitions concerning costs. The FCC defines

24 incremental cost as “the additional costs (usually expressed as a cost per unit)
25 that a firm will incur as a result of expanding the output of a good or service by
26 an additional quantity of a good or service.”² When SBC Illinois provides
27 certain non-recurring services, some of the costs are labor related. Part of the
28 method by which SBC Illinois has projected labor costs is to inflate their existing
29 labor rates by some measure of inflation. As I understand it, Mr. Flappan
30 believes that by doing so, SBC Illinois is engaging in embedded cost rate
31 making, in violation of TELRIC principles. However, it appears to me that this
32 method best represents the forward-looking labor costs SBC Illinois will incur,
33 when engaging in non-recurring activities.

34
35 I do not doubt that wage rates for some SBC personnel may be higher than
36 overall market wages. SBC is a unionized company and although I am not a
37 labor market specialist, I believe it is a fair statement that wages in unionized
38 companies are typically higher than market wages overall. I consider it likely
39 that SBC Illinois will remain a unionized company for the foreseeable future.
40 Therefore, I expect on a forward-looking basis that its labor rates will be higher
41 than the general marketplace.

42
43 **Q. Don’t TELRIC rules specify that market costs be used?**

44 A. In my reading of the FCC’s rules, I cannot find that comment explicitly. The
45 FCC states that the use of the TELRIC methodology should result in “... a

¹ AT&T Ex. 4.1

46 pricing methodology on forward-looking, economic costs [that] best replicates,
47 to the extent possible, the conditions of a competitive market.”³ However, firms
48 in competitive markets have union contracts and pay those employees above
49 marketplace wages. For example, the automobile industry operates in a
50 competitive market. It may not display the characteristics of a perfectly
51 competitive industry described in an economics textbook, but for an industry
52 that has high fixed capital requirements it displays very competitive
53 characteristics. Yet, the so-called Big Three all have heavily unionized work
54 forces. Firms such as Nissan and Toyota have built factories in the United
55 States and they do not, in many cases, have unionized work forces. However, I
56 don’t think many people would anticipate that Ford, GM, or Daimler-Chrysler is
57 likely to become non-unionized at any time in the foreseeable (i.e., forward-
58 looking) future.

59
60 The existence of a competitive market does not compel the conclusion that a
61 company’s wages be driven to a market average. Firms may pay somewhat
62 above average if they believe well trained labor is more productive. I grant that
63 competitive forces do tend to drive wages to an average. However, there is still
64 a fair amount of variation around the average.

65
66 I believe that, in implementing forward-looking rates, these considerations need
67 to be taken into account. It appears that, for the foreseeable future, SBC

² First Report and Order, ¶675

Illinois will be a unionized company with wages and benefits above market averages. In order to determine accurate forward-looking non-recurring rates, that fact should be considered. I do not believe anyone envisions that anyone other than SBC Illinois personnel will be provisioning the services. Therefore, basing forward-looking labor costs on SBC Illinois union contracts is reasonable.

Q. Do you qualify this analysis in any way?

A. I do. I stress that my analysis applies only to the estimation of costs associated with non-recurring charges. Labor costs associated with recurring charges are modeled differently, and a different analysis might properly be made in that case. I offer no opinion on that question.

Q. Does this conclude your testimony?

A. Yes, it does.

³ First Report and Order, ¶678